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ESTATE AND GIFT TAX REVISION

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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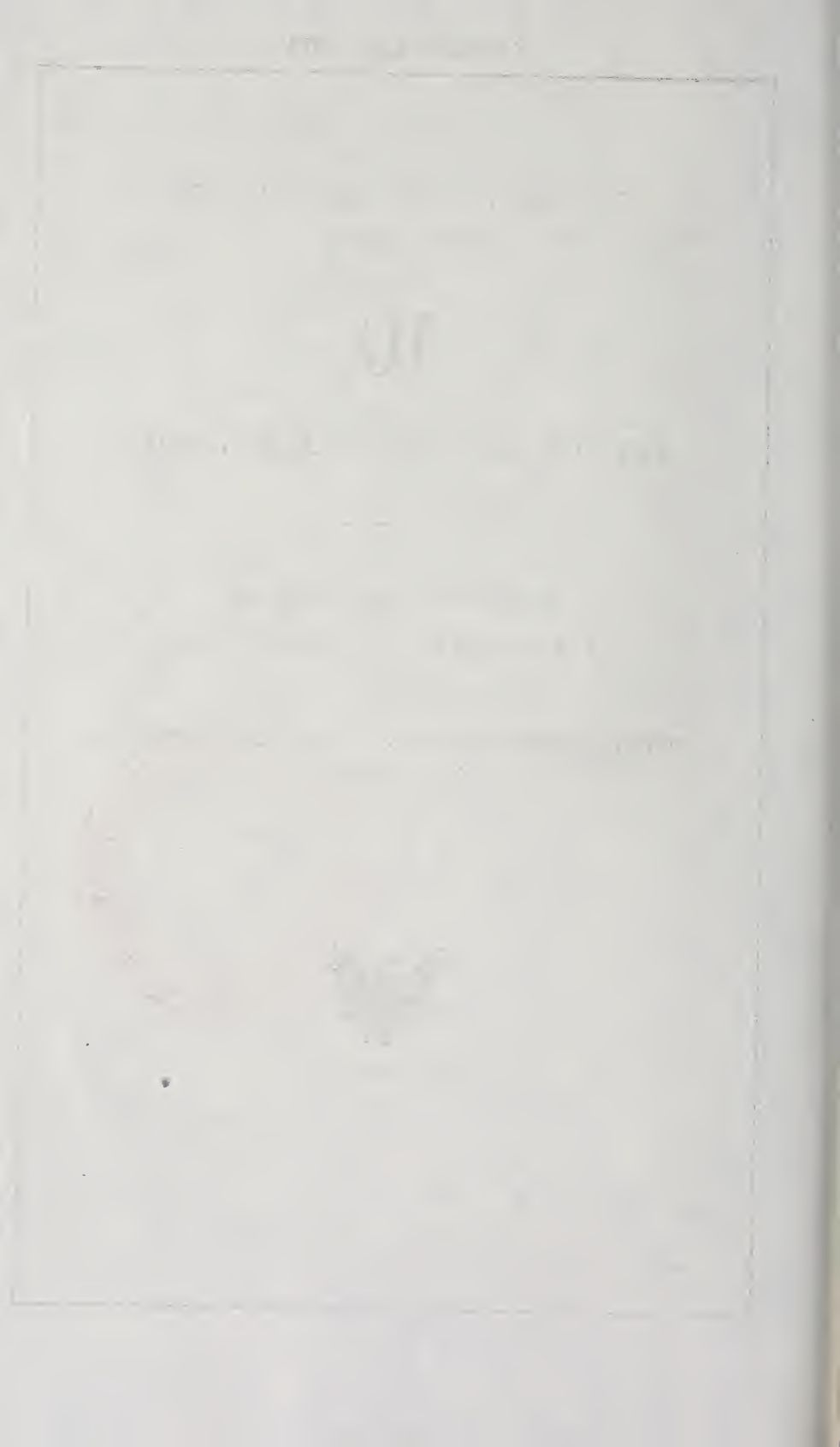

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INTRODUCTION

This pamphlet is a summary of existing estate and gift tax provisions. It is in part a summary and in part excerpts taken from "A Guide to Federal Estate and Gift Taxation" (publication 448) published by the Internal Revenue Service. This material is included because members of the Finance Committee have indicated an interest in possible modifications in estate and gift tax provisions. No attempt is made to describe the issues involved here nor are there any House provisions referred to since this was not a subject matter included in the bill passed by the House (H.R. 10612).

Issues which have been discussed in connection with the estate and gift taxes include possible increases in the specific estate tax exemption, substitution of credits for specific exemptions, provision for special valuation or credits for farm properties, unification of the estate and gift tax provisions, increasing the marital deduction limitation above the flat 50 percent level, extending the time of payment in the case of estates consisting primarily of farms and other closely held businesses, dealing with tax avoidance through the use of trusts and other similar devices to skip estate tax for one or more generations, and also the problem of the basis to be attributed to property passing from the decedent for subsequent income tax transactions. If the committee desires to go into this subject, subsequent pamphlets will discuss the issues involved.

1. Estate Tax in General

The Federal estate tax, first enacted in 1916, to impose a tax on the transfer of property owned by the decedent at his death, whether it is transferred by will or pursuant to laws of intestacy. Unlike an inheritance tax that is imposed on each beneficiary of the estate and based on the size of the inheritance and the relationship of the beneficiary to the decedent, the Federal estate tax is imposed on the entire estate, which is primarily liable for its payment. However, if the estate does not pay the tax, the beneficiaries of the estate are liable for the tax to the extent of the value (at the time of the decedent's death) of the property acquired by them.

During recent years, the estate tax has annually produced approximately $4 billion in revenue. The revenue produced from the estate tax during recent years represents approximately 2 percent of total tax revenues.

2. Gross Estate

The starting point in computing the estate tax is to determine the gross estate of the decedent. In general, for purposes of the estate tax, property that is includible in the decedent's gross estate can be separated into three categories: (1) property in which the decedent had an interest at his death; (2) property transferred by the decedent before his death, but to which he retained "strings", i.e., certain powers or

controls over the property until his death, and (3) property which was property transferred within three years before the decedent's death "in contemplation of death".

Property owned by the decedent

The first category of property that is includible in the decedent's gross estate is property that was beneficially owned by the decedent at the time of his death, and was transferred at his death by will or by intestacy laws. This category includes real and personal, tangible and intangible property, such as real estate, furniture, jewelry, stocks and bonds, bank accounts, promissory notes, or other evidences of indebtedness that are owned by the decedent. The property need not be owned solely by the decedent or owned "outright" by the decedent to be included in his gross estate. For example, if the decedent has an interest in property owned as tenants in common with others, the value of his interest as a tenant in common is includible in his gross estate. Property that the decedent owned at his death, but that could not be transferred by his will or by the intestacy laws, such as a life estate created by another, is not included in the decedent's gross estate.

Special rules require the inclusion of certain annuities, joint interests with the right of survivorship, powers of appointment, and life insurance proceeds transferred to a beneficiary or co-owner by reason of the decedent's death through operation of law or contract even if the interests are not transferred by will or pursuant to laws of intestacy.

Property transferred by the decedent with "strings" attached

The second category of property includible in a decedent's gross estate is property that was transferred by the decedent during his lifetime but with "strings" attached to the property (which were not relinquished until the decedent's death). The value of the gross estate includes property transferred by the decedent if he reserved certain rights or interests in the property for his life (or for a period which does not in fact end before his death). This provision applies to property transferred by a decedent with a retained life estate or with a retained right to designate persons who may possess, enjoy, or receive income from the transferred property. In addition, the gross estate generally includes the value of property transferred by the decedent if he retained a reversionary interest. This provision applies if possession or enjoyment of the property by the beneficiaries can be obtained only by surviving the decedent and if the value of the reversionary interest at the decedent's death exceeded 5 percent of the value of the property. Finally, the gross estate includes the value of property transferred during the decedent's life if the decedent retained the power to revoke, alter, amend, or terminate the transfer. This provision applies if the retained power was possessed by the decedent at his death. Property is not included in the decedent's gross estate under this provision if the exercise of the power is subject to a contingency beyond the decedent's control which did not occur before his death.

Property transferred in contemplation of death

The third category of property includible in a decedent's gross estate is property that was transferred in contemplation of death. This provision applies to property transferred by a decedent within the 3-year period preceding his death if the transfer is made in contemplation of death. A transfer made within 3 years of death is presumed

to be made in contemplation of death unless the absence of a death-related motive is established.

Valuation

Once it is established that a particular property is included in the decedent's gross estate, the value of the property must be determined. The value included in the gross estate is the fair market value of the property interest at the date of death or, if the alternate valuation date is elected, at the date six months after the decedent's death. For this purpose, the term "fair market value" is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of all relevant facts.

3. Taxable Estate

The taxable estate is determined by deducting from the gross estate the deductible amounts for administration and funeral expenses, claims against the estate, certain casualty and theft losses sustained during administration of the estate, the marital deduction, the charitable deduction, and the specific exemption of $60,000.

Administration expenses, funeral expenses and claims

Generally, a deduction is allowed for amounts payable for funeral expenses, administration expenses incurred in administering the estate, claims against the estate, and unpaid mortgages and charges against property included in the gross estate. Administration expenses include commissions of the executor or administrator, attorneys' fees, and miscellaneous costs such as accountants' fees, court costs, and selling expenses. Claims against the estate include property taxes accrued before the decedent's death, unpaid income taxes, and unpaid gift taxes on gifts made by the decedent in his lifetime. Deductible claims against a decedent's estate are only for enforceable personal obligations of the decedent at the time of his death. Claims against property for which the decedent was not personally liable may be taken into account in determining the value of the property includible in the decedent's gross estate. No deduction is allowed from the gross estate for expenses claimed for income tax purposes.

Casualty or theft losses

Deductions are allowed for losses incurred during the settlement of the estate arising from theft or casualties, such as storms, fires, etc., but only to the extent that these losses are not compensated for by insurance or otherwise. No deduction is allowed from the gross estate for losses claimed for income tax purposes.

Martial deduction

A deduction is allowed, subject to certain limitations, for the value of any property interest included in the gross estate that passes from the decedent to his surviving spouse. The intended purpose of providing the marital deduction was to provide some degree of parity between common law property and community property. Since only one-half of community property is included in a decedent's gross estate as property owned by him, the decedent's share of the community property passing to the surviving spouse does not qualify for the

marital deduction. In the case of other property passing to a surviving spouse, the allowable marital deduction is limited to the lesser of the value of the property or fifty percent of the adjusted gross estate (the gross estate less deductions for expenses, indebtedness, taxes, and losses). An interest in property passing to the surviving spouse generally does not qualify for the marital deduction if it is a "terminable" interest. A terminable interest is one that will terminate or fail after the passage of time, or upon the occurrence or nonoccurrence of some contingency. Examples of terminable interests are: life estates, annuities, estates for a term of years, and patents.

Charitable deduction

A deduction is allowed for the value of property in the decedent's gross estate that was transferred by the decedent to certain qualified charitable recipients. The charitable deduction is unlimited in that it is not subject to percentage limitations such as those that apply with respect to the income tax deduction for contributions to both domestic and foreign qualified charitable recipients.[1]

A charitable deduction is allowed for a charitable interest in trust with remainder to a noncharitable entity, but only if the trust is in the form of a guaranteed annuity or is a fixed percentage of the property, valued and distributed annually. The allowable deduction is the value of the income interest. In addition, a charitable deduction is allowed for certain future interests in property given to a charity. However, the future interest (except for a future interest in a personal residence or a farm) must be in the form of a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund.

Exemption

A specific exemption of $60,000 is allowed for the estate of each U.S. citizen or resident.

The exemption was first set at $50,000 under the Revenue Act of 1916. The exemption was increased from $50,000 to $100,000 in 1924. In 1932, an additional estate tax was imposed. The exemption from the basic tax was retained at $100,000 but the exemption from the additional tax was set at only $50,000. The exemption from the additional estate tax was reduced to $40,000 in 1935. The exemption from the additional tax was raised to the present $60,000 amount in 1942. In 1954, the basic tax and the additional tax were combined into one schedule, with a $60,000 specific exemption.

4. Rates of Tax and Credits Against Tax

The gross amount of estate tax imposed is determined by applying the appropriate tax rates to the taxable estate. The estate tax rates are progressive and range from 3 percent for the first $5,000 to 77 percent for amounts in excess of $10,000,000.

The net estate tax payable is determined by deducting from the gross estate tax the allowable credits for State death taxes, Federal gift taxes, Federal estate taxes on prior transfers, and foreign death taxes.

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[1] In general, for purposes of the income tax, a deduction for charitable contributions is limited to 20 percent of the taxpayer's adjusted gross income in the case of contributions to private foundations (other than private operating foundations) and to 50 percent of the taxpayer's adjusted gross income in the case of contributions to qualified charitable recipients other than private nonoperating foundations.

Rates of tax

The present rates of tax are set forth in the following table:

TABLE FOR COMPUTATION OF GROSS ESTATE TAX

Taxable estate equal to or more than— (A)	Taxable estate less than— (B)	Tax on amount in column (A) (C)	Percentage rate of tax on excess over amount in column (A) (D)
0	$5,000	0	3
$5,000	10,000	$150	7
10,000	20,000	500	11
20,000	30,000	1,600	14
30,000	40,000	3,000	18
40,000	50,000	4,800	22
50,000	60,000	7,000	25
60,000	100,000	9,500	28
100,000	250,000	20,700	30
250,000	500,000	65,700	32
500,000	750,000	145,700	35
750,000	1,000,000	233,200	37
1,000,000	1,250,000	325,700	39
1,250,000	1,500,000	423,200	42
1,500,000	2,000,000	528,200	45
2,000,000	2,500,000	753,200	49
2,500,000	3,000,000	998,200	53
3,000,000	3,500,000	1,263,200	56
3,500,000	4,000,000	1,543,200	59
4,000,000	5,000,000	1,838,200	63
5,000,000	6,000,000	2,468,200	67
6,000,000	7,000,000	3,138,200	70
7,000,000	8,000,000	3,838,200	73
8,000,000	10,000,000	4,568,200	76
10,000,000	----------	6,088,200	77

Credit for State death taxes

A limited credit is allowed against the gross estate tax for the amount of any estate, inheritance, legacy, or succession taxes actually paid to any State on account of property included in the gross estate. State death taxes will qualify for the credit only if actually paid by the later of four years after the filing of the estate tax return or before the expiration of any extension of time for the payment of the Federal estate tax because of undue hardship.

Credit for gift taxes

Credit is allowed against the estate tax for the Federal gift tax paid on a gift by the decedent of property subsequently included in his gross estate (e.g., property that was transferred in contemplation of death). The credit is allowable even though the gift tax is paid after the decedent's death and the amount of the gift tax is deducted from the gross estate as a debt of the decedent.

The credit is limited to the lesser of the following two amounts:

(*a*) The gift tax paid on the gift that is included in the gross estate, or

(*b*) The amount of estate tax attributable to the inclusion of the gift in the decedent's gross estate.

Credit for foreign death taxes

Credit is allowed against the estate tax for any estate, inheritance, legacy, or succession taxes actually paid to any foreign country. The term "foreign country" for this purpose includes possessions of the United States.

The credit is allowed for death taxes paid with respect to property (1) situated within the foreign country to which the tax is paid, and (2) included in the decedent's gross estate. No credit is allowed for such taxes paid with respect to the estate of a person other than the decedent. No credit is allowed for interest or penalties paid in connection with foreign death taxes.

The credit is limited to the smaller of the following:

(*a*) The amount of the foreign death tax attributable to the property situated in the country imposing the tax and included in the decedent's gross estate for Federal estate tax purposes, or

(*b*) The amount of the Federal estate tax attributable to particular property situated in a foreign country, subject to the death tax in that country, and included in the decedent's gross estate for Federal estate tax purposes.

Credit for tax on prior transfers

Credit is allowed against the tax for Federal estate taxes paid on the transfer of property to the present decedent from a transferor who died within 10 years before, or within 2 years after, the present decedent's death. It is not necessary that the transferred property be identified in the present decedent's estate or that it be in existence at the time of his death. It is sufficient that the transfer of the property was subject to Federal estate tax in the estate of the transferor and that the transferor died within the prescribed period of time.

The credit is limited to the smaller of the following amounts:

(*a*) The amount of the Federal estate tax attributable to the transferred property in the transferor's estate, or

(*b*) the amount of the Federal estate tax attributable to the transferred property in the present decedent's estate.

If the transferor died within 2 years before, or 2 years after, the present decedent's death, the credit is the smaller of limitation (*a*) or (*b*) above. If the transferor died more than 2 years before the decedent, the credit is a certain percentage of the smaller of (*a*) or (*b*) as follows:

(1) 80 percent, if the transferor died within the third or fourth year preceding the decedent's death;
(2) 60 percent, if within the fifth or sixth year;
(3) 40 percent, if within the seventh or eighth year;
(4) 20 percent, if within the ninth or tenth year.

5. Estates of Nonresident Aliens

In the case of a nonresident alien, only that part of the gross estate that is situated in the United States is subject to tax. Generally, a specific exemption of $30,000 is provided. A proportion of the expenses, indebtedness, taxes, and losses is allowed as a deduction. The proportion allowable is based on the ratio of the value of property situated in the United States to the value of all property in the decedent's estate. Generally, a charitable deduction is allowable for bequests to domestic charities. Unless specifically provided for under a death tax convention, no marital deduction is available.

The tax rates applicable to an estate of a nonresident alien range from 5 percent for the first $100,000 in the taxable estate to 25 percent on amounts in excess of $2,000,000. The credits allowable

for State death taxes, gift tax, and tax on prior transfers are allowable in the case of the estate of a nonresident alien.

6. Filing and Payment

Filing requirements

In the case of the estate of a citizen or resident of the United States, an estate tax return must be filed by the executor or administrator if the value of the gross estate was in excess of $60,000 on the date of the decedent's death. In the case of a nonresident not a citizen of the United States, an estate tax return must be filed if the portion of the decedent's gross estate situated in the United States was in excess of $30.000 on the date of death.

The estate tax return, if required, must be filed within 9 months after the date of the decedent's death. The Secretary of the Treasury or his delegate is authorized to grant an extension of time for filing the return upon request and upon a showing of good and sufficient cause. However, no extension can be granted for more than 6 months from the due date of the return unless the person liable for filing the tax is abroad. In addition, an extension of time for filing the return does not extend the time for payment of the tax.

Payment of tax

The estate tax is due and payable on the due date for filing the estate tax return, i.e., 9 months after the date of the decedent's death. There are four provisions under which an extension of time for payment of all or a portion of the estate tax may be granted, relating to reasonable cause, undue hardship, a nonpossessory reversionary or remainder interest, and certain closely held businesses.

An executor or administrator may request an extension of time for paying the estate tax for a period not to exceed 12 months from the date fixed for the payment and such a request will be granted whenever there is reasonable cause. An extension of time to pay does not extend the time for filing the return. Reasonable cause is not limited to a showing of "undue hardship." It includes cases in which the executor or administrator is unable to readily marshal liquid assets because they are located in several jurisdictions; or the estate consists largely of assets in the form of payments to be received in the future, such as annuities, copyright royalties, contingent fees, or accounts receivable; or the assets that must be liquidated to pay the estate tax must be sold at a sacrifice or in a depressed market.

If the payment, on the due date, of any part of the tax shown on the return would impose undue hardship upon the estate, the time for payment may be extended for a period or periods not to exceed one year for any one period, up to a total of not more than 10 years from the due date. The term "undue hardship" means more than just an inconvenience to the estate; therefore, an extension will not be granted on the basis of a general statement alleging hardship. However, the necessity for selling an interest in a family business that is included in the gross estate to people not related to the family, would be an undue hardship even though a price equal to the current fair market value could be realized.

Payment of the tax attributable to the inclusion in the gross estate of an interest in a closely held business, under certain conditions, and at the election of the executor, may be made in not more than 10 yearly installments, the first to be paid on or before the date otherwise fixed for the payment of the entire tax. The election by the executor may not be made later than the date fixed for the filing of the return (including extensions). This provision of the law is available only if the value of the interest in the closely held business exceeds 35 percent of the value of the gross estate or 50 percent of the taxable estate of the decedent. For purposes of this provision, the term "interest in a closely held business" means an interest as sole proprietor in a trade or business; an interest as a partner in a partnership having not more than 10 partners, or in which the decedent owned 20 percent or more of the capital; or ownership of stock in a corporation having not more than 10 shareholders, or in which the decedent owned 20 percent or more of the voting stock. The benefit of this provision of the law is available only to estates of decedents who, at time of death, were citizens or residents of the United States.

If an extension of time to pay the tax is granted because payment on the due date would cause undue hardship to the estate, or the executor elects to pay in installments the porton of the tax attributable to an interest in a closely held business, the Internal Revenue Service may, if it deems necessary, require the executor to furnish a bond for the payment of the tax in an amount not more than double the tax for which the extension is granted.

Interest on extended payments

With respect to extensions of time for payment under the undue hardship or closely held business provisions, interest at the rate of 4 percent per annum was imposed on amounts outstanding before July 1, 1975. However, interest at the general rate precribed under the Code is imposed on amounts outstanding on or after July 1, 1975, for any extension of time for payment. Generally, the interest rate under this provision is adjusted annually effective as of the first of February to reflect 90 percent of the average predominant prime rate charged by commercial banks to large business during September of the preceding year. This rate is currently 7 percent per annum.

7. Gift Tax, in General

The Federal gift tax is imposed upon the transfer of property by gift. It is imposed upon the person making the gift (donor). If, however, he does not pay the tax when due, the person receiving the gift (donee) may be called upon to pay it, to the extent of the value of the property received by him.

The gift tax is not imposed upon the receipt of property but rather upon the donor's act of making the transfer. The tax is measured by the value of the property transferred during the calendar quarter, provided the transfer results in a completed gift. Whether a gift is considered complete depends upon all the facts in a particular case.

8. Gift Tax Base

The total amount of gross gifts made by a donor during any calendar quarter is determined by adding the fair market value of all his gifts for the calendar quarter.

If the donor is married and both spouses consent to split their gifts for the quarter, his total amount of gross gifts is equal to one-half the value of his gifts to people other than his wife, plus one-half the value of her gifts to people other than him, plus the full value of all gifts he made to her during the calendar quarter. Her total amount of gross gifts for the quarter would be the same except that instead of including gifts he made to her, she would include the full value of gifts she made to him.

The total amount of net gifts made by a donor during any calendar quarter is the amount of gross gifts less any applicable $3,000 annual exclusion per donee still available to him.

The total taxable gifts made by a donor for the quarter is the total amount of net gifts less (1) one-half the value of any gifts that qualify for the marital deduction; (2) the full value of any gifts that qualify for the charitable deduction; and (3) any portion of his $30,000 specific lifetime exemption that may still remain. (The specific exemption cannot exceed $30,000 for this computation, even if some of the gifts were made during periods when the specific exemption was greater than $30,000.)

Gift by husband or wife to third party (gift splitting)

A gift made by a person to someone other than his spouse may be considered, for Federal gift tax purposes, as having been made one-half by each spouse. For example, if Mr. A gives $16,000 to his son, the gift will, with Mrs. A's consent, be considered $8,000 from Mr. A and $8,000 from Mrs. A. To "split the gift," the spouses must be legally married to each other at the time of the gift. If they divorce each other later in the calendar quarter, they may still split the gift so long as neither marries anyone else during that quarter. They both must signify on their separate gift tax returns their consent to have all gifts made in that calendar quarter split between them. In addition, both must be citizens or residents of the United States on the date of the gift and one spouse may not create a general power of appointment over the property transferred in the other spouse.

Annual exclusion

The first $3,000 of gifts (except gifts of future interest in property) made to any one person during any calendar year is excluded in determining the total amount of gifts for the calendar quarter. This $3,000 annual exclusion is applied to all gifts of a present interest made during the calendar year in the order in which they were made until the $3,000 exclusion per person is exhausted. For a gift in trust, each beneficiary of the trust is treated as a separate person for purposes of the $3,000 exclusion. However, the $3,000 exclusion is not available for gifts of a future interest, such as a remainder interest in a trust. The entire value of such a gift must be included in the total amount of gifts for the calendar quarter in which the gift was made.

Specific exemption

The tax applies to the total taxable gifts. The amount of the taxable gifts is arrived at by deducting from the total amount of gifts during the calendar quarter (gross gifts less applicable $3,000 exclusions) the specific exemption and the charitable and marital deductions.

A lifetime exemption of $30,000 is allowed. At the option of the donor, the exemption may be taken in the full amount in a single calendar quarter, or it may be spread over a period of quarters or years in any amounts that he chooses. No further exemption may be taken after the total amount of $30,000 has been used. In the case where a husband and wife elect to split gifts as being one-half from each, the specific exemption is in effect $60,000 ($30,000 for each).

Valuation of property

The value of a gift is the fair market value of the property given on the date the gift is made. There is no alternate valuation date for the Federal gift tax as there is for the Federal estate tax.

The "fair market value" is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, and both having reasonable knowledge of all relevant facts.

9. Deductions From Gift Tax Base

Charitable deduction

A deduction is allowable for gifts to certain qualified charitable recipients. The charitable deduction is unlimited in that it is not subject to percentage limitations such as those applicable to the income tax deduction for charitable contributions. The deduction is not limited to gifts for use within the United States, but is also allowed for gifts to or for the use of qualified foreign charities.

A charitable deduction is allowed for a charitable interest in trust with remainder to a noncharitable entity, but only if the trust is in the form of a guaranteed annuity or is a fixed percentage of the property, valued and distributed annually. The allowable deduction is the value of the income interest.

A charitable deduction will be allowed for certain future interests in property given to a charity. The future interest (except for a future interest in a personal residence or farm) must be in the form of a charitable remainder annuity trust or a charitable remainder unitrust or a pooled income fund. Any other form of charitable remainder interest generally will not qualify for the charitable deduction.

Marital deduction

Subject to certain limitations and conditions, a deduction is allowed for one-half the value of any property interest transferred by gift to a person who, at the time of the gift, was the donor's spouse. The deduction may not exceed the amount of gifts to the spouse less the allowable annual exclusion. This means that the marital deduction is equal to the lesser of:

(1) One-half the gift to the spouse before deducting the allowable annual exclusion; or

(2) The full amount of the gift after the allowable annual exclusion.

Certain property interests, called "terminable interests," that are given to the spouse may not qualify for a marital deduction. A terminable interest is one that will terminate or fail after the passage of time or when some contingency occurs or some event fails to occur. Examples of terminable interests are: life estates, annuities, estates for a term of years, and patents. A terminable interest will not qualify for the marital deduction if a reversionary or remainder interest in the property is given for less than adequate consideration to any person other than the donee spouse and such other person may possess or enjoy any part of the property after the termination of the donee spouse's interest. As in the case of the estate tax marital deduction, transfers of community property to a spouse do not qualify for the gift tax marital deduction.

10. Computation of Gift Tax

The tax liability is computed by adding together total taxable gifts for the current quarter plus taxable gifts made in all prior years beginning in 1932 and in all prior quarters beginning with the first quarter of 1971, applying to the results the rates of tax contained in the table below. The resulting tax is then reduced by the Federal gift taxes previously paid (or that should have been paid) under that rate schedule and the remainder is the gift tax liability due for the calendar quarter.

The gift tax rates are progressive and range from 2¼ percent for the first $5,000 in cumulative taxable gifts to 57¾ percent for cumulative taxable gifts of $10,000,000. The gift tax rates are set at three-fourths of the estate tax at each corresponding rate bracket.

The rates of tax are set forth in the following table:

Amount of taxable gifts equal to or more than— (A)	Amount of taxable gifts less than— (B)	Tax on amount in column (A) (C)	Percentage rate of tax on excess over amount in column (A) (D)
0	$5,000	0	2¼
$5,000	10,000	$112.50	5¼
10,000	20,000	375.00	8¼
20,000	30,000	1,200.00	10½
30,000	40,000	2,250.00	13½
40,000	50,000	3,600.00	16½
50,000	60,000	5,250.00	18¾
60,000	100,000	7,125.00	21
100,000	250,000	15,525.00	22½
250,000	500,000	49,275.00	24
500,000	750,000	109,275.00	26¼
750,000	1,000,000	174,900.00	27¾
1,000,000	1,250,000	244,275.00	29¼
1,250,000	1,500,000	317,400.00	31½
1,500,000	2,000,000	396,150.00	33¾
2,000,000	2,500,000	564,900.00	36¾
2,500,000	3,000,000	748,650.00	39¾
3,000,000	3,500,000	947,400.00	42
3,500,000	4,000,000	1,157,400.00	44¼
4,000,000	5,000,000	1,378,650.00	47¼
5,000,000	6,000,000	1,851,150.00	50¼
6,000,000	7,000,000	2,353,650.00	52½
7,000,000	8,000,000	2,878,650.00	54¾
8,000,000	10,000,000	3,426,150.00	57
10,000,000	----------	4,566,150.00	57¾

11. Other Gift Tax Provisions

Filing requirements

A Federal gift tax return, if required, is due on or before the 15th day of the second month following the close of the calendar quarter in which a gift is made.

A return is not required for any gift of a present interest to any one person if the total gifts of present interests to that person for the calendar year do not exceed $3,000.

Any gift of a future interest must be reported on a gift tax return for the quarter in which the gift is made, regardless of the amount of the gift.

Gifts by nonresident aliens

Gifts by nonresident aliens are subject to the Federal gift tax only if the gifts involve real property or tangible personal property situated in the United States.

The $3,000 annual exclusion is available to nonresident alien donors. The specific lifetime exemption of $30,000 is available only if provided under an applicable convention. A deduction is allowable for gifts to both domestic and foreign charities by nonresident aliens, subject to the same rules applicable to residents or citizens. The marital deduction is not available to a nonresident alien donor.

12. Related Income Tax Provisions

Under the income tax provisions, transfers of property by gift or by reason of death do not generally result in the recognition of gain by the donor or decedent, as the case may be, since such transfers are not treated as sales or exchanges. An exception to this general rule is made with respect to appreciated property contributed to a political party. In this case, the appreciation attributable to the property is recognized by the transferor (sec. 84).

With respect to the income tax treatment of the transferee, exclusions are provided for proceeds of life insurance (sec. 101(a)), employee death benefits up to $5,000 paid by an employer (sec. 101(b)), and gifts and inheritances (sec. 102). In the case of gift transfers, the donee's basis for determining gain from the sale or exchange of the property is generally a carryover basis from the donor, i.e., the donor's basis plus the gift tax attributable to the transfer. In the case of appreciated property transferred by reason of death, the beneficiary's basis is generally stepped-up to the valuation used for estate tax purposes. Certain exceptions to this general rule are provided. The decedent's beneficiary does not get a stepped-up basis for property or property rights which is treated as "income in respect of a decedent." This treatment would apply to property or property rights such as unpaid compensation earned by a cash basis taxpayer at his death and gains from sales which had been entered into before death but not yet consummated at death. Similar treatment applies to joint and survivor annuities, certain qualified stock options, installment obligations, and partnership interests so that the tax treatment which would have applied to the decedent if he had lived to receive the income is carried over to the estate, beneficiary, or successor in interest in a partnership (secs. 72, 421(c), 453(d)(3), and 753).

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